

File Attachments :

Amjt100v – ltr to AC enclosing final draft report June07.pdf
CAA.reply.to.Mr Shannon.MP.8.April 2011.pdf
Doc4184-83.pdf
Magellan.A340.forecasts.14.March.2007..ppt.pptx
OPEN LETTER TO MR TRENT HENRY.E.Y.5.May.2011.doc
Scan-to-Me from 10 2 10 233 2011-05-04 190926.pdf

From: Brian Little [mailto:brian@fortfield.com]
Sent: 26 May 2011 14:41
To: 'trent.henry@ca.ey.com'
Cc: 'wdimma@brookfield.com'; 'Reguly, Eric'; 'scott.halliday@uk.ey.com';
'lcameron@uk.ey.com'; 'JIM SHANNON'
Subject: FW: OPEN PUBLIC LETTER / Globe and Mail article

For the record

Everyone – sorry I made a typing error in a date in my email below.

This was at a time when my estimate of total aircraft build projections in my 19 February 2009 email to Mr Edwards.... This of course should have read 19 February 2009 and refers to my email at this www.fortfield.com website link in Part D at my 19 Feb 2006 email above -
- on probable A340 -500/600 production build projections of 150 aircraft

Apologies

Regards

Brian Little

From: Brian Little [mailto:brian@fortfield.com]
Sent: 26 May 2011 10:37
To: 'trent.henry@ca.ey.com'
Cc: 'wdimma@brookfield.com'; 'Reguly, Eric'; 'scott.halliday@uk.ey.com';
'lcameron@uk.ey.com'; 'JIM SHANNON'
Subject: FW: OPEN PUBLIC LETTER / Globe and Mail article

For the Record

Mr Henry

Yesterday I received a google alert which drew my attention to an article published in the Canada Globe and Mail on Wednesday 25 May 2011.

[Brian Little's turbulent battle with Magellan Aerospace](#)

Globe and Mail

Mr. Little, 54, says he has been in a physical, mental and financial nosedive since Magellan, controlled by **Calgary** billionaire **Murray Edwards**, fired him as he stepped off a plane at the Toronto airport on Sept. 18, 2006. To fund his wrongful dismissal ...

[Globe and Mail](#)

[See all stories on this topic »](#)

This follows an on-the-record interview which I finally gave to the European correspondent Eric Reguly of the Canada Globe and Mail earlier this month.

In addition to continual reference by Magellan to reliance in E&Y and PwC (rather than their own legal duties and responsibilities) I draw specifically two matters within that article to your attention

Item 1 “According to summaries produced by Magellan subsidiary Aeronca at the end of 2006, Magellan expected to ship 827 exhaust systems, including spares and repairs, for the A340 jet between 2008 and 2021. The bulk of the production would come between 2008 and 2012, and the total estimated revenue over those years was \$176- million (U.S.)” and “Magellan’s defence is that the A340 program was thoroughly audited by both Ernst & Young, and later by PwC. The conclusion by both auditors was that the A340 program estimates were valid and that Mr Little’s allegations were unfounded.”

The schedule which Mr Reguly refers in his G&M article is the one enclosed in my OPEN LETTER to you dated 5 May 2011 (again in the forward of this email) and was disclosed by Magellan’s UK solicitors with the following comment.

“For the sake of clarity, we also attach (at page 2) a document that our client has recently prepared , which shows at a glance the assessment that would have been carried out by the auditors in order to satisfy themselves that the accounting was appropriate. We trust this is if assistance.”

The schedule itself for the A340 deliveries was numerically based on the representation provided to E&Y on 16 February 2007 by Aeronca (doc 3605) for your FY2006 audit . That schedule represented that a A340 – 500/600 cumulative total of 283 aircraft and 5 development aircraft (or 1155 exhausts would be built) before aircraft production cessation in FY2016. The Spares AND repairs schedule estimate provided then was for a cumulative total of 190 units – with a total of 166 units to be built.

This was at a time when my estimate of total aircraft build projections in my 19 February 2009 email to Mr Edwards and others was confirmed following the Farnborough Airshow as unlikely to exceed a total build of 150 A340 -500/600 aircraft caused by the cancellation of the A340 Engineering Enhanced program, launch of the A350 -1000 XWB and cancellation of existing orders by Emirates, whilst others were moving their into suspension. By the time I met E&Y and PwC in December – February 2007 I was revising this down further - as I stated in my witness statement to around 135 aircraft or 540 exhausts for production. I will return to this below.

As Mr Reguly’s article records the Airbus Order book is at 133 (actually will be 131) when the two A340 -500 aircraft built in FY2008 against the cancelled Kingfisher Airlines order and stored at Airbus Toulouse. Those two aircraft (MSN886 and MSN894) are included in the airbus website (twice) if Air Zimbabwe are ever able to take delivery. Now deferred delivery twice. As the Airbus spokesman confirms there are no A340 -500/600 aircraft under construction. Furthermore there are no A340 sales campaigns. Its competitor the Boeing 777 is scheduled to move to the highest production rates in its history in 2013.

You, Mr Henry, will recognise that this Magellan schedule was the one I incorporated in my attached OPEN Letter to you on 5 May 2011. It was also the subject of my email to Mr Linsdell on 5 May 2009. And of course I recognise the significance of pricing and costs at the relevant times too.

Item 2 “Bruce Gowan, a member of Magellan’s audit committee, said Mr Little seems to have underestimated the market for exhaust system and repairs. “There is a huge replacement market for these parts,” he said, adding that, so far, Ernst & Young has not recommended a program writedown.

Firstly I am astonished that an accountant and audit committee member does not in the first instance acknowledge that it is the senior management and Directors duty and responsibility to produce the financial accounts. It is E&Y ‘s responsibility in accordance with auditing standard to apply objectivity and “professional skepticism” to what they have represented to them.

When PwC asked Magellan to prepare the attached schedule based on production cessation equivalent to what I had told them (at 135 aircraft with deliveries finishing in 2009/2010) Magellan responded with a schedule dated 14 March 2007 which now uplifted the projected spares and repairs from a 190 units to a minimum cumulative total of 886 units.

Whilst much of the remainder of the PwC reports are subject to my A340 “forensic deceit” analysis they correctly record at para 8.72 “Management acknowledges the unpredictability of repair work and has appropriately chosen not to consider repairs in its EAC analysis”. This is because the exhaust system is the subject of unscheduled repairs or “on Condition” maintenance. See the attached recent letter from the Group Director of Safety Regulation at the CAA to my MP , Mr James Shannon which sets this subject matter out in reasonable lay terms.

Faced with this prospect, and in explaining this 14 March 2007 schedule, Mr Neill then told PwC in his email dated 29 March 2007 (the day before the FY2006 audited results were published) that

“To attempt to explain the terminology “Spares and Repairs” generally if an exhaust achieves its predicted and recommended life it will be taken out of service and a new one will replace it”.

Mr Lynch We have Mr Neill's email ([Doc 3597](#)) to Mr Moore of PricewaterhouseCoopers. I know it's a bit compressed in its typescript. Tribunal, of course there is a bigger version in the bundle, if that's a bit small to read. (Pause).

Mr Bobbi, you can see, can't you, looking at the two substantive paragraphs -- it actually is a feature of both those paragraphs -- **that Mr Neill makes it expressly clear that Magellan is simply basing its calculations for accountancy purposes on spares or replacements, he's not included anything to do with repairs.**

Then during my second cross- examination of Mr Neill

Mr Neill : I think we're losing sight of the purpose of this email. At that point in time, PwC were trying to understand how the numbers stacked up to justify us getting more than 1247 units that had been used at that time in the EAC. I must admit I didn't go back and check in detail every calculation that followed that. **All I was saying was that if you took Dr Thamburaj's 40 thousand hours it would generate a significant number which, on top of the production, would easily exceed the 1247 numbers needed to amortize out the recurring costs.** That's what I was trying to say in the opening paragraph. *(of his email dated 29 March 2007 at document 3597)*

Mr Little No. I'm suggesting to you you're lying, **because that says to anybody, a replacement.** The calculation of 800 stacks together with that, it only makes sense in that context. It can't mean anything else, and they then go off and say that's how they've done their calculations, but can't even get the maths right. (overspeaking) - see Lynch QC below at (d)

Judge Wait, please. You're suggesting he's lied in the email?

Mr Little Yes, he's deliberately lied and given that impression.

Judge In the email?

Mr Little **In the email relating to the 800 and he then conditions --**

Mr Little No....

Judge Wait.

Mr Little Lynch

Judge In the email, what you're suggesting is that he's lying to PwC.

Mr Little **He's deliberately given the impression of that 40,000 hours replacement.**

Judge I hear what you say but I want to make a note of it. I suggest that you are lying in the email. Not anywhere else, but in that email. That's what's been suggested to you, I think. That that's a lie

When this spares replacement assertion by Mr Neill was put to Magellan's customer, Aircelle, the Head of Customer Support responded (as per the attached email trail – 4184/4183) **WE BELIEVE THE WHOLE THING IS A HOAX....."** and that is consistent with all the information within the airlines , CAA, and industry as a whole.

Of course E&Y now have access to the actual and budgeted deliveries for FY2010 and FY2011 and can easily compare them with the projections by Magellan for FY2010 – 81 and FY2011 – 90 units. Furthermore they can audit the levels of BETA21S inventory available to meet both these A340 spares projections and ongoing a380 production at Aeronca.

Given the reliance on E&Y in their assessment of these matters since December 2006 you may wish to reconsider the primary points above and the contents of my letter dated 5 May 2011.

If you require any further information then please do not hesitate to contact me.

Regards

Brian Little

PS As a matter of record you will see on my website www.fortfield.com at the At a Glance button a spreadsheet that sets these matters out. As of today I believe that Magellan have delivered from 1 January 2007 a further 121 exhaust units (completing Airbus A340-500/600) , of which 11 have been provided for use as Spares. This contrasts with the several hundred percent higher estimates submitted by Magellan in early 2007 . Furthermore rather than revenues of \$176m from FY2008 - FY2012 as per the audited EAC by E&Y I expect that revenues from January 2008 to date will be approximately \$20m - \$25m. This of course was part of the period during which I was supposed to be leading the creation of the Magellan strategic plan – 2007 – 2011 and was prevented from doing so with my instant dismissal without warning (and as the Judge has said in a conscious breach of statutory procedure) shortly after disembarking the flight at Toronto Airport.

You can check with the Canadian E&Y audit team of Bombardier and I think you will find that they can advise you that I led a team of 800 engineers in Belfast for two years from 1993 – 1995. That included working with over 100 engineers in nacelle systems and with the International Nacelle Systems Joint venture. It included one of the predecessor companies to Aircelle, Magellan's customer for the A340 – 500/600 exhaust system. Furthermore a team at E&T audit Goodrich – which included ROHR . A company I also worked with in Bombardier during the 1980's and I have considerable experience of the commercial and financial accounting of nacelle systems in that period. Both the US accounting rules and UK GAAP.

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 14 May 2011 08:06
To: 'trent.henry@ca.ey.com'
Cc: 'scott.halliday@uk.ey.com'; 'lcameron@uk.ey.com'; 'JIM SHANNON'
Subject: FW: OPEN PUBLIC LETTER

Mr Henry - see my other email a few minutes ago, which of course relates in part to this email below. Regards Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 05 May 2011 09:35
To: 'trent.henry@ca.ey.com'; 't.henry@ca.ey.com'
Cc: 'scott.halliday@uk.ey.com'; 'lcameron@uk.ey.com'; 'JIM SHANNON'
Subject: OPEN PUBLIC LETTER

ON THE RECORD - OPEN LETTER / EMAILS

Mr Trent Henry

Further to my email below please find attached an OPEN LETTER to ERNST & YOUNG dated 5 May 2011 which builds on the email trail below from 10 August 2009 – 8 August 2010 and the separate email trail which is located on my website www.fortfield.com at

UPDATED 7 April 2011: I wrote an [email on 18 March 2011 to Mr Trent Henry, the new leader of E&Y Canada, and Mr Linsdell](#) in advance of the completion of the FY2010 audit of Magellan's Financial statements and their public release. As you can read this was copied to Mr Dimma.

A few days earlier, [on 16 March 2011, I requested that Mr Henry also provide support to E&Y](#) in their response to Mr Shannon's questions regarding "independent forensic investigations".

The content and request should be clear in this OPEN LETTER. It would appear t many of us that it would be good sense that another auditor (other than E&Y and PwC) should now have the opportunity to independently audit this Public Company from FY2011. As MAC Ordinary Shareholders my wife and I intend to vote for such a change.

If there are any further questions or clarification required, which cannot be provided from your staff or within my website, please do not hesitate to make contact with me .

Regards

Brian Little

Telephone 0044 28427 88054
Fax 0044 28427 88054
Mobile 0044 789 4445920
Skype whitechurch176

PS Mr Shannon MP . As per our your telcon last night - thanks for ringing us, despite obvious " election fever" etc.

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 08 August 2010 19:12
To: 'trent.henry@ca.ey.com'; 't.henry@ca.ey.com'
Cc: 'lou.pagnutti@ca.ey.com'; 'sgate1@uk.ey.com'; 'scott.halliday@uk.ey.com'
Subject: FW: website update

Mr Trent Henry

See email trail below. Website (www.fortfield.com) further updated with some latest information e.g the attached 16 JULY 2010 update extract .

It now remains for me to compile and forward my OPEN LETTER to you (rather than Mr Pagnutti) at some time in the next couple of months and then travel to Canada again – obviously all subject to a sustained continuation in a recovery in my health.

Regards

Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 19 January 2010 14:44
To: 'lou.pagnutti@ca.ey.com'
Subject: FW: website update

Mr Pagnutti - website updated and OPEN LETTER will be forwarded now in February 2010 . Supporting information already on hyperlink

Kind regards

Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 06 January 2010 09:53
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'; 'wdimma@msn.com'; 'wdimma@brookfield.com'; 'ewilliams@brookfield.com'
Subject: RE: website update

Don

Just to confirm www.fortfield.com now updated and released. As you can see in Part G I have added the E&Y part towards the end and included only two of the emails from the Folder in the hyperlink .

The draft Open Letter to E&Y is dated w/c 18 January 2010 but it is now likely to be provided towards the end of January 2010 but still in good time before MAC FY2009 results are audited and completed.

Kind regards

Brian

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 18 December 2009 17:06
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'; 'sgate1@uk.ey.com'
Subject: RE: website update

Don - Following our return home the website <http://www.fortfield.com/mal.html> has now been updated with the various information and in particular the download facility of my A340 On the Record Final Report. I will add the other documents re E&Y in January 2010.

Kind Regards

Brian Little

P.S Stephen - I was able to obtain Barbara's contact details from another old source within E&Y . Thanks Brian

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 04 December 2009 09:00
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'
Subject: RE: A340 On the Record FINAL REPORT - UPDATED 4 December 2009

For the record – Magellan Aerospace external auditors

Don : I note, on behalf of my husband Brian, that there was no response from you to his further invitation for comments on the factual accuracy or omissions in his Report. He is travelling with friends at present in Canada/USA and has asked me to inform you that he is now has some amendments and additions to the report which he is updating and will replace the Report and add all the supporting documents /letters on our www.fortfield.com website later next week.

Jackie Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 27 November 2009 19:15
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'; 'sgate1@uk.ey.com'
Subject: RE: A340 On the Record FINAL REPORT - UPDATED 27 November 2009

For the record

Don : I have received no response from you on the Final Report – preliminary release version. I did however receive a number of inputs and suggestions from others which I have properly considered and included amendments or additions where appropriate.

Following an email from PinsentMasons last evening stating that *“the document contains what we consider to be many inaccurate and incorrect statements concerning my clients”* I have emailed them asking they can they be more specific – at least on the substantive matters - in order that I may also properly consider those inputs.

Unlike the approach taken by Mr Dimma as Chair of the MAC Audit Committee , Mr Jewett of TORYS and it would certainly seem Mr Tracey of PwC in their production of the C\$3m + Final Report in June/July 2007 I again invite any comments on that factual accuracy or omissions in this amended report dated 27 November 2009.

As with MAC I have requested that those final inputs are received by 4 pm (Toronto time) on Thursday 3 December 2009 in order that I can finally complete the document and provide a general release. You may provide those directly to me (preferably) or via Pinsentmasons.

You can now download the A340.On.the.Record.Final.Report.27.November.2009 at www.fortfield.com and enter the Members area using the password MAL.

Regards

Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 16 November 2009 21:53
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'
Subject: RE: A340 On the Record FINAL REPORT - preliminary release

For the record

I did not receive any response to my invitation for comment on the factual accuracy of the A340 Final Draft report from E&Y. I have however, received comments and inputs from others which I have incorporated in the attached A340 On the Record. Final Report – preliminary release.

You will not be surprised to see that E&Y/you are referenced at various points through the Final Report. Perhaps I could draw your attention in particular to Page 33 regarding the inventory /stocks already in place to support the A340 predicted Spares Demand shown at page 59/doc 3605H.

As E&Y USA will shortly be embarking on their audit activity for FY 2009 you may wish to direct them towards a physical stock check of these Engine rings as they are unique to the A340. Some of the materials may still be in a raw material state. That could be part of the “audit testing” you get in signing off the A340 part of the MAC FY2009 accounts this year. I am certainly content that I have done my due diligence in that regard before cross examining Mr Neill on 27 July 2009 and again since.

I invite E&Y again to make any further comments or inputs on Factual accuracy or omissions in this FINAL REPORT before Friday 27th November 2009.

Regards

Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 08 November 2009 22:57
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'
Subject: Final Draft Report Issue AA - embargoed to Q3.2009 MAC results release - invitation to comment on Factual Accuracy.

For the record

I did not receive any responses to my prior emails below. Please find attached Final Draft Version AA which E & Y are invited to comment on any factual accuracy errors by Friday 13th November 2009. Whilst there is some final “clean up” required the document is substantially complete and meets what I said would be provided at an appropriate time at the MAC AGM in May 2009.

Regards

Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 03 November 2009 08:29
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'
Subject: RE: Rich Neill - oral evidence on 27 July 2009 Magellan Aerospace audits

For the record -

Noted no input/responses as yet . Extension to 6 November 2009 as per my email yesterday

Kind regards

Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 26 October 2009 09:23
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'
Subject: FW: Rich Neill - oral evidence on 27 July 2009 Magellan Aerospace audits

Don further to my email last Monday (19th) please find attached an extended document (16 Pages) on A340. We completed the evidence section of the UK case last Thursday.

I invite you to respond on any factual accuracy issues or substantive omissions in the attached A340 document by COB Friday 30 October 2009.

Hopefully by now you will have recognized this is proceeding beyond a simple client-firm relationship process.

You will note that in several places in the attached document that I have said that we do not , as yet, know what E&Y have carried out as part of their audit process on that subject matter . I hope you can provide whatever factual information you feel able to , on these subjects, for inclusion so that everyone has the invitation and opportunity (not afforded to me) to comment on the information in advance of declaring any Conclusions or Observations and this document being part of wider briefings for others.

You will also see that I have suggested at Page 7 that E&Y may wish to carry out a physical inventory audit of the A340 machined rings and related base materials to underpin Mr Neill' evidence on 27 July 2009 that all the "excess inventory" is already in place – some 120-150 sets- to support the predicted demand for Spares in the 14 March 2007 schedule - re=attached for your convenience.

I encouraged a voluntary documents disclosure since 7 May 2009 and then sought the disclosure of specific-information based documents for the FY2007 and FY2008 audits. so that I could give further evidence in the UK. The Tribunal decided last Wednesday that it was not necessary for me to do so and on the basis of their Ruling we believe they have determined that I had now sufficient evidence and documents to support my reasonable belief in FY2006 on A340. Indeed although the Respondents QC said that it would be permissible to hear more evidence on some specific documents it seems that the Tribunal have been satisfied with what they have now already heard and the final Component Maintenance manuals and Aerospace Press publications in late 2005/2006 and that no further documents are necessary.

If MAC can demonstrate to me that I am wrong and I do not have all the information (Requests 15A, 16B and 16C) then It seems foolhardy not to persuade me of that and provide the relevant information. The fact that MAC will not do so simply confirms in mind that it is not so and accelerates the processes elsewhere. I complete my Closing submissions in the UK case in January /February 2010.

Earlier this year I asked in an email that you brief your E& Y (Canada) Managing Partner , Mr Lou Pagnutti and provide him with some of the relevant correspondence between us since December 2006 to the present day. I hope that has already been successfully achieved by you.

For your information A similar process has been completed with PwC UK (Mr Ian Powell on 8 October 2009) and PwC Canada (Mr Christie Clark on 14 October 2009) – File Copy Mr Edwards

Kind regards

Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]

Sent: 19 October 2009 11:14

To: 'Don.A.Linsdell@ca.ey.com'

Cc: 'David.A.DeWolfe@ca.ey.com'

Subject: FW: Rich Neill - oral evidence on 27 July 2009 Magellan Aerospace audits

Don Further to my email I note that Pinsentmasons have not provided the answers that you will have considered and provided to your client.

I now invite you to consider, on behalf of E&Y , the attached one page - A340 paper for any factual accuracy errors and let me know in writing any evidence available to you for that error together with any supporting contemporaneous documentation. Could I please have this by COB on Wednesday 21 October 2009. Any inputs or confirmation in this instance would be much appreciated

I suppose you will also shortly be considering the MAC Q3/2009 results and their position/submissions on the A340 and GE414.

Kind Regards

Brian

From: Brian Little [<mailto:brian@fortfield.com>]

Sent: 28 September 2009 13:12

To: 'Don.A.Linsdell@ca.ey.com'

Cc: 'David.A.DeWolf@ca.ey.com'; 'wdimma@brookfield.com'; 'wdimma@msn.com'; 'pjewett@torys.com'; 'RAE Charles'; 'Lou.Pagnutti@ca.ey.com'; 'ichurch@edcofin.com'

Subject: RE: Rich Neill - oral evidence on 27 July 2009 Magellan Aerospace audits

For the record

Point 1 - As yet I have not received a reply via Mr Dimma/Mr Rae to the six questions posed to you/EY in my 4 September 2009 email below. I hope by now you have or will shortly provide the answers to Mr Dimma etc and that Mr Rae will be able to convey those to me by 15 October 2009.

Point 2 - As you also know you were provided with emails by me with document disclosures (on 14 December 2008 at 07.03, 07.05 and 07.06) made by the Respondents following the UK Tribunal Order in December 2008 in which I asked you/EY to confirm to their client or me before my UK Evidence-in-Chief in January 2009 which of the documents disclosed in accordance with the precise UK Court Order (points 2 & 3) had been viewed or received by Ernst and Young in the course of their MAC Audit for FY2006. Also if there were any further relevant documents. As a minimum definitively we can now see from three contemporary documents the evidence of the MAC representations to EY for your A340 audit and on which you will have, in part, formed your public audit opinion.

A) After the seven month PwC investigation ,as you know in the Final PwC report at para 8.61, **PwC amended the paragraph to add**

NEW in Final investigative Report Para 8.61 Management indicated to us that while it produces multiple EACs on an ongoing basis for reviewing estimates and performing sensitivity analysis , it undertakes a more rigorous preparation and review process at year end. In this respect, an EAC dated from any given quarter

may not have been prepared or reviewed to the same degree of rigor, as is performed as part of the year end process. Thus while we compare the Q2 FY2006 and Q4 FY 2006 EAC's at a high level in paragraph 8.62 below, the analysis of the EAC which follows is on the Q4 FY2006 EAC, as this EAC incorporates management's latest assumptions and best estimates based on the most recently available information. **The Q4 FY2006 EAC was also used by EY for year-end audit testing purposes.**

Para 8.62 While the total number of units to be delivered under the A340 programme was consistent between the Q2.2006 and Q4.2006 EAC's , the Q2 FY2006 (exhibit 8.3) EAC presented a forecast net loss for the programme of USD 5,219,875 and the Q4 FY2006 EAC forecast a net profit for the programme of USD 137,132."

In doing so Mr Furbay of MAC provided the Excel workbooks for Q4.2006 (including document 1831/1831A, Q2.2006 - 1830/1830A) to EY which included a further revision to the Aeronca calculated Selling Prices from Q2.2006 contributing in excess of C\$6m to the Revenues in the EAC and moving the gross profit to a \$137K over the whole programme. This was NOT what PwC fundamentally said in their analysis of the \$8470K increase at para 8.62B . No supporting paperwork was provided in the PwC report of the justification for those changes and any checks on the calculation itself. This is Request 15A in the spreadsheet. Perhaps those documents are in your Aeronca audit files from TIMET BETA21S data and the Aeronca/Aircelle formula calculations.

For completeness I was completely unaware, until I read PwC para 8.117, that Mr Dekker / Mr Furbay were also continuing to capitalise some \$1.5m of the "excess" labour costs into further learning costs in A340 inventory , which must have been considered acceptable to EY in FY 2005, FY2006 and perhaps FY2007? You of course would have known then that ultimately the new Canadian inventory accounting rules (3031) would permit their approx C\$10m "write -off" as part of the circa C\$40m Learning costs charge to Retained Earnings in MAC's Balance Sheet from January 2008.

- B) Following the MAC AGM in May 2009 Mr Dekker attended the next UK hearing on 8 June 2009 and provided a copy of an email and attachments sent directly to Ernst and Young on 1 March 2007 which represented the Aeronca production actual and future estimates of some 1184 production units to FY 2016 (circa 290 A340-500/600 production aircraft) and 190 Spares and Repairs. This was not in the December 2008 disclosure and obviously EY did not bring that omission in meeting the Court Order at Point 2 to their clients attention.

- C) The Magellan Aerospace Corporation Audit Results and Communications Reports - dated 16 March 2007 (doc 3993 – 4013) and 30 March 2007 (doc 4053 – 4079). Finally disclosed after Court intervention on several occasions in late March 2009.

Point 3 -

I also record the following formally with you and EY (Canada) NOW as a relevant extract (the yellow background is additive) from part of a letter later this week to Mr Rae at the Respondents solicitors--

You then proceed to say later in your letter *"I make the above comments in light of what the overwhelming content of your correspondence concerns, which is in the main is to address further technical and detailed issues concerning A340 accounting"* and later *"A very large proportion of your letter to me on 4 September relates to matters that are akin to submissions or argument. At the risk of repeating a point I have made to you on several occasions, I do not agree to litigate this case in correspondence, which is again what you are inviting us to do."*

You have stated in your letters

Mr Rae --- Pinsentmansons letter - 27 August 2009

In regard to the likely need for spare exhaust parts, the Respondents case has always been (and remains) that Dr Thamburaj's work gave rise to a calculation of the likely life span of the parts. This allowed an estimate to be made as to the likely demand of such parts. Dr Thamburaj's work concerned this and not some regulatory, mandatory requirement, that the parts be replaced after 40000 flying hours.

Mr Rae --- Pinsentmansons letter - 14 September 2009

"As you well know, our view is that Magellan's position on the likely, predicted need for spares (based on Dr Thamburaj's research) is clear and consistent."

In my letter of 4 September 2009 I set out quite clearly that I considered that despite having "warned" Mr Lynch QC about his line of questioning of Mr Bobbi on 8 June 2009 on "replacement spares" etc he, it would seem, did not fully appreciate the consequences of that outside the public courtroom in the aerospace business world. The aerospace regulatory processes are quite clear and the financial accounting for Non recurring Engineering and Development costs (NRC) which follows from that long and well-established globally. It is also the case that Mr Lynch QC and yourself have a responsibility (at least in my mind) to ensure that issues beyond just the "UK-centric litigation" are properly considered by yourselves with the Respondents. Mr Neill then attributes the blame for the further outside courtroom follow ups /misrepresentations within the industry to Mr Bobbi. For the avoidance of doubt Mr Lynch QC **directly caused the actions** taken by Mr Bobbi and myself to verify further, beyond all doubt, that the information/evidence given by Mr Bobbi and myself was not mistaken – we have verified 100% what he and I have said. You will also recall that Magellan refused Mr Bobbi's offer to meet with them, following Mr Lynch QC having made that suggestion /remark in his cross examination to show him further documentation to support the position you continue to state in your letters above.

Your letter suggests that I am trying to litigate through correspondence and that it is solely a matter of argument etc. With respect the purpose for me having detailed transcripts of oral evidence on a word for word basis, is that I can "educate Mr Lynch QC and yourself" on a subject of which you have very limited business experience and step beyond the reading of the "English word" in selected documents immediately before each hearing and actually

understand what is being said. It is to my mind “education through correspondence” so that the consequences for your clients of that public court-room are well understood by you both and EY /PwC. It is sworn court room public evidence that everyone is responsible and accountable for. In the same way I find the legal process in an Employment Tribunal new so likewise is the aerospace industry to both of you and we all have the opportunity to learn as we go.

You complain about the word for word quoted evidence from Mr Bobbi’s and Mr Neill’s oral evidence – as I suggested before both Mr Lynch QC and you should read that evidence carefully again and learn what is actually being said and think beyond a public courtroom to its implications elsewhere. Those court stenographer transcripts can assist both of your understanding.

It is also abundantly clear to me that Mr Dekker is in large part instructing you on some of these matters and your letter statements above, as he knows full well that the International accounting policy and practice for NRC Engineering and Development costs can ONLY include Repairs work when they are 1. “**scheduled**” repairs (that is NOT an ON CONDITION Service Life Policy for the Trent 500 Exhaust system as Mr Neill confirmed) with 2. **known revenues and costs** and 3. which are **100% certain to be carried out by the OEM**. This is why Mr Neill, from his engine experience, knows that only certain NRC can be retained on the Balance Sheet – a certain point for repair/overhaul AND a certain revenue and cost AND a 100% OEM Repair – such as on Engines and APU’s. These are the subject of mandatory documents within EASA, FAA etc for “actual” time limits/”hot service life parts” - known as LLC – Life Limited Components.

That of course is not the situation on the Trent 500 Exhaust Nozzle and Plug – which is Maintenance “On Condition” – document 3625A-3625Z2 / Mr Neill’s oral evidence and confirmed by the eight airlines and Airbus - which we have spoken to. In effect the Repairs are, as PwC say at para 8.72,, are simply unpredictable, with variable revenues and costs and no certainty that Magellan will carry out those Repairs.

As both Mr Neill in his email at document 3597 and PwC state in document 693 at paragraphs 8.68 “ ***The shortfall of 365 units is therefore required to be made up of spares in order to support the future programmes volume estimate of MAC.***” and

at para 8.72 “It is of note that the internal report also makes reference to the requirement for repairs in its conclusion and not explicitly to the need for spares or replacement units. Management acknowledges the unpredictability of repair work and has appropriately chosen not to consider repairs in the EAC analysis. Management believes that given the estimated life of the exhaust system, there will be a combination of spare units and repair work. Further, management asserts that the requirement for spare units will support and exceed the total number of units projected in the EAC” (CL – we know from the oral evidence of other Respondents witnesses and also Mr Neill that “**Management asserts**” is a reference solely to him).

Then at para 8.76 (following the para 8.74 and 8.75 table with the PwC calculated “1572” Units to replace or Repair by FY2021. (CL which we know to be the subject of basic logic, maths and business errors. Then on 27 August 2009 following the disclosure of the Aeronca 14 March 2007 document 3605H (2MB attached) we can see that Magellan provided an analysis of “886” Spares and Repairs which PwC do not record anywhere in their Reports or Exhibits. At present we do not know whether this was provided to EY at all , or whether indeed EY asked for such an analysis in their deliberations.

Para 8.76 ***“In order to achieve MAC’s EAC projections , only 365 replacement (i.e spare) exhaust system units would need to be delivered. This is far below the expected demand of 1,572 spare and repair units as set out in paragraph 8.75 above.”*** (CL : For the record it would seem that PwC have concluded that in excess of some **23%** (365/1572) of their Spares and Repairs calculation at Para 8.75 is acceptable for inclusion in the Q4.2006 EAC. We also know now from Mr Neill’s oral evidence that although PwC did not acknowledge or refer to it anywhere they also had the Furbay/Neill 14 March analysis in late March 2007 (new document 3605H), a sum of 365[?]/886 or **41% minimum** allocation for complete replacement Spares, must have been a part of what was in Mr Neill’s mind and some of his assertions in his emails at document 3597/3598. For completeness you know that the “365” “calculation” was based on the Forecast International Aril 2007 report and also mistakenly double counted Airbus/Aircelle WIP and inventory. Had the attached document 3605H production volumes produced by Aeronca on 14 March 2007 (and similar to the market consensus of the six other global forecasts and data from the publications cited by Mr Neill been used) then in excess of a further 700 replacement spare units would have been needed to, as PwC should have put it in para 8.68 ***“The shortfall of 700+ units is therefore required to be made up of spares in order to support the future programmes volume estimate of MAC.”***

In real business terms this would mean that every A340 aircraft in airline service would require a “Spares replacement” - not a Repair – at least once in its product life. That crucially is not what Mr Neill’s said in his oral evidence repeatedly, nor Dr Thamburaj in his emails and documents, nor Professor Ghonem’s 2003 Article summary and conclusions nor anybody else with actual experience within the aerospace industry. You should revisit carefully directly with Mr Neill and Dr Thamburaj precisely what they are saying to their customers and the airlines as I warn you now in writing (as I did verbally to Mr Lynch QC on 8 June 2009) that if you continue to pursue the line you have been doing then I will be absolutely clear to Airbus and the contacts we have in the top management of the eight airlines (new contact via Ian Massey - Audit Chair at Vought and my friend and a former Airbus Toulouse CFO - in SAA) what Magellan propose, despite all the documentation in their possession, to do on replacements for their Exhaust systems. Let me assure you cannot do say one thing in a public courtroom involving over a hundred million dollars of additional costs to the airlines and additive revenues to Magellan and then say another elsewhere without consequences. The cause of any such outcome, for the avoidance of doubt, will lie with Mr Lynch QC and yourself and the rigour with which you properly consider the mounting documentary evidence and actually read both the documents disclosed and those requested for voluntary disclosure and those within the amended Application. If I am so wrong then show me the documentary evidence – every Magellan action and new document disclosed to date has simply added to my “reasonable belief” in August / September 2006 that Magellan would not address the A340 NRC on their Balance Sheet by a minimum of \$10m.

You then proceed to complain that once again I am asking for new documents. That is also a function of the continuing “education” process. Mr Bobbi was quite clear in his evidence that talked to, viewed and received a copy of the Airbus Maintenance Manuals for the Trent 500 Exhaust Nozzle and Plug with multiple airlines and consistently told the Tribunal in evidence that parts would most likely be repaired etc. Also that there was no knowledge or documents within the industry or indeed any discussion (done discretely) about any life limits or substantial replacement programmes for these components or challenges in the Airbus Direct Maintenance Cost Guarantees. If you turn to my letter to Mr Tracey of PwC

on 22 November 2008 (document 3474-3476 – copied to you) you will Mr Stafford's request and the reference to these documents at Requests 3 and 4. There is nothing new – it seems we have to get the documentary evidence to continue to show how appalling the PwC "independent forensic investigation" was and perhaps hope that Mr Lynch QC and yourself have (hopefully mistakenly) embarked on a process in which you are unknowingly continuing to assist the Respondents break the law on its Public Financial Reporting. As you said you would do in your letter of 14 September 2009 you have now disclosed those Manuals and the six pages which Mr Bobbi and I have from three airlines (78.11.41 Pages 5001/5002 and 78-11.42 pages 5001/5002/5003 & 15004.page 2) or included – two of which are in fact also correctly annotated by someone pre disclosure with the reference "**return the xxxxx to the manufacturer for analysis and repair**". **At one point Mr Lynch Qc seems to suggest that there may be different documents in existence between Magellan Aerospace and Aircelle rather than the ones we had seen and issued by Airbus/Aircelle to the airlines. This disclosure confirms that they are in fact identical at the relevant pages and what we expected regarding "On Condition" and Return to factory for Repair.**" There is of course no reference to a recommended service life etc and indeed Mr Neill gave evidence frequently on Repairs and as you also saw in the transcripts the calculation of 40000 flying hours was the "Worst Case Scenario" etc

In the simplest layman terms what Mr Neill said in his oral evidence on 27 July 2009 was that the airlines are recommended to schedule to do the inspection checks described in the disclosed Airbus/Aircelle Component Maintenance manuals from the second removal of the Trent 500 engines for overhaul (i.e at 40000 flying hours/4650 cycles) and at all subsequent 20000 fh checks. If any of the inspection/checks criteria are found that necessitate a repair then the Airbus Component Maintenance Manual suggests it is returned to Aircelle for repair.

Mr Bobbi also gave evidence about Spares replacements and their "reasonable predictability" for strategy , operational planning and financial scenario/accounting purposes. I also have prior experience with this process from my procurement/contracting experience with Shorts / Bombardier on the C23A aircraft for the USAF and the IAE V2500 nacelle with Rohr/Goodrich over some ten months in 1984/1985 (EY audit them).

For education purposes in simple terms Nacelle Spares usually arise from three elements

1. Initial Provisioning for Quick Engine Change Units (QECU) – these are normally contracted with the initial order and are predictable based on the number of airlines operating the engine/aircraft , the airline "inventory" policy/MRO centres and their risk of "accidental Airline damage. This information or assessment is readily available within the aircraft/engine manufacturers and some of the largest component suppliers – e.g. Rohr/Goodrich, SNECMA/Safran . Today this is also software predicted with various algorithms and from both the major software packages the data available for A340 aircraft in service would predict 16 units. While I was at MAC Magellan showed 18 units were delivered for Spares purposes in their EAC.
2. Airline Spares Inventory / Rotables - Mr Neill referred in his evidence to "Rotables". These are spare units which are generally purchased or leased (such as those offered to Virgin Atlantic in document 4263/) or exchanged. This happens when there becomes an increasing possibility of components requiring Repair in the life cycle of the product. These "rotables"

are also forecast using custom software packages in what is part of a "Ranging and Scaling process" with major drivers obviously being Guaranteed Turnround Times (in MAC case 30 calendar days/25 calendar days), Replacement prices (say \$250K each = as production / Aircelle contract), and "assessed Vendor Repair performance". This has also been run through as part of the Mark Bobbi report December/March 2009 report with a prediction of 36 units needed for the in service A340 fleet in 2012. Separately I have now provided the detailed data from end June 2009 (see summary at document 4240A-E) to some friends in an organisation I worked with in 1985 and they have provided predictive results for Trent 500 of some **38 "rotables" units at peak in FY2012/FY2014**. It should be noted that as some aircraft are withdrawn from service and put in long term storage it is not unusual for some of the high expense components to be removed and used as part of the "rotables" inventory, which of course reduces the purchase or lease of replacement spares. An example I would cite is Virgin Atlantic who now have two A340 600 aircraft in storage at Lourdes in September 2009 and who I understand are planning to use some "high cost" components from MSN371 as part of their "rotables" inventory.

3. The final part is of course the parts which are returned for Repair and which after analysis are judged uneconomical to repair (Beyond Economical Repair - BER) and where a replacement is required. There are lots of benchmarks on this available within the industry and lead times guaranteed for the provision of same. Mr Neill you will see in the transcript referred to heavy repairs on a couple of occasions in his evidence and the associated revenues. I have obtained up to date data on this from RR / Goodrich / Vought /Bombardier and SNECMA for exhaust systems. Including elements 1. and 2. the lowest number was 13% Spares for the In service fleet of Airbus A330's with RR Trent engines. Of the remaining eleven engine types the highest was a current military application of some 24% in Rohr. **As part of the global EY you will of course be able to speak with your EY audit partner (Goodrich.Rohr - Mr EEEEEEE, Vought – Ms YYYYYY and Bombardier – Mr XXXXX in Montreal) to verify their approach and accounting/aerospace experience on civil engine nacelle spares and repairs .**

The market/business development people at Rohr/Goodrich estimate that the Spares market is for some 20% of the in service fleet for the Trent engine exhaust and nozzle which is 50% higher because of the use of some thin BETA21S sheet in parts of the Exhaust system. Their estimate for the 125 aircraft in airline service is for a potential 100 spares (categories 1, 2 and 3) leaving the remainder of the market available for a Repair and Overhaul offering (see specifically the A340 exhaust nozzle and plug in their Capabilities Brochure (document 4269F). They also correctly point out that it is important because of the wider strategic Goodrich relationship with RR (such as A350XWB engine nacelle and new Single Aisle product research) and as the Trent 500 engine is concentrated in 8 global airlines with some 100 plus aircraft— almost all of whom have some form of "one-stop MRO offering" from the Goodrich family of products.

If we turn now to Magellan estimates. Their representation to EY for the FY2006 audit was for approximately 1184/1200 units in service (approx 290 aircraft) as at 1 March 2007 and some 190 units for Spares AND Repairs. If one excludes the elements 1. and 2. above which would arise from 300 A340 type aircraft in service - which would on software simulation be 59 Spares units – then some 131 units would have been the likely "predictable" Spares

replacement forecast. This would have represented some 14% of the total Spares as a % of aircraft in service.

Mr Bobbi from his detailed work, including reviewing the documents from Magellan in December 2008 – March 2009, gave a Spares forecast total of 104 – 130 units (including the 18 delivered) which he knew was equivalent to some 20% - 25% of the forecast total in service. In this he recognised that some BER repairs, which would lead to Spares replacements, were more likely than for the usual Inconel /Steel alternatives exhaust systems..

For my part I had estimated a total of 150 units (including the 18 already delivered) as my Shorts and Bombardier experience was of an approximately 25% being subject to being Beyond Economical Repair (BER) criteria. In hindsight my Spares estimate of 25% is probably too high as at the time I had insufficiently factored in the much higher total Spares replacement prices relative to the actual costs of some of the thinner BETA21S sheet materials needed in the replacement/repairs. “ End of Extract

The matters for EY and its overall audit performance in MAC, beyond the A340 above, have not been covered at this time so that our focus presently can remain on the Representations being made in the MAC quarterly accounts for Q3.2009 and FY2009 by 31 March 2010, and from one perspective still remain within the two year time limit.

Point 4

In the attached spreadsheet (55kb) you will see a reference to Requests 16B, 16C and 16D – hopefully you will assist your client and the EY reputation. In the case of Request 16D it should be simple to verify the “huge” stock of unique A340 Machined rings that are in inventory to support the assertions of the Respondents solicitors in their letter quotes above, estimated spares volumes in document 3605H dated 14 March 2007 (attached again for completeness), and the oral evidence of Mr Neill that the reasons for the minimal orders from MAC on TIMET at present is that these Machined rings etc for spares (150 units plus) can be readily manufactured from inventory is on hand. Four stock checks and validation should be simple for an EY auditor to satisfy themselves on that matter and the replacement spares assertion on which it seems MAC and EY rely.

Kind Regards

Brian

P.S I don't know whether you watched the CBC programme – Fifth Estate - Riding on Risk on Friday night (Sept 25) which was about whistleblowers in Air Transport Canada . It was apparently very good and prompted one of the Canadian team to bring it to all of our attention -- in particular the personal risk and implications for whistleblowers because of the dreadful “culture” in Canada. They reminded me of the story which Clare Pettifer (one of the UK witnesses) had told her in their written preparations for Canada when she recalled you as an auditor of a top auditing firm telling me in London, right at the end of our meeting on 14 December 2006, that “it doesn't pay to be a whistleblower”. From a financial

perspective only that may well be true as your clients, and their UK legal team, drive me into personal bankruptcy around 10 December 2009. My conscience is clear having achieved 100% price increases from Airbus and major customer payment accelerations – as their witnesses confirmed in the UK (and agreed supplier contract payment deferrals – as their witnesses confirmed in the UK case) only a few weeks/days before and after being fired at Toronto Airport three years ago. And of course all the evidence from the protected disclosures and the continuing A340 contemporary documentary evidence points to the validity of the cases then, now and in the future.

b

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 04 September 2009 11:35
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'; 'wdimma@brookfield.com'; 'wdimma@msn.com'; 'RAE Charles'; 'Lou.Pagnutti@ca.ey.com'
Subject: RE: Rich Neill - oral evidence on 27 July 2009 Magellan Aerospace audits

Don

As it seems that you are unlikely to respond directly to me as I am not your client will you please respond with the answers to the questions that I posed in my email dated 31 August 2009 below . You will most likely wish to respond in a note to Mr Dimma as Chair of the Magellan Aerospace Audit Committee – which can then be promptly relayed to Mr Rae so that he may formally respond to the Tribunal and myself.

Part 1

Q1. Can you confirm that the document at Attachment 5 below (Aeronca) A340 schedule dated 14 March 2007 was never viewed or provided to EY by Magellan Aerospace during the FY2006 audit. YES/NO - if it was provided what was the first date on which EY viewed or received it – your EY FY2006 audit file. I will return to this below.

Q2. I assume this specific “128 remaining Production and 886 Spares and Repairs analysis” in Attachment 5 was not discussed by Mr Neill with EY. - YES/NO If my assumption is wrong then when was this discussed (your EY audit file notes) and with whom in EY.

Q3. Can you confirm that the “market data from other publications/forecasts” file was not viewed or received by EY. YES/NO If the contents of the file were received by Magellan can you please provide a copy to Mr Dimma from your EY FY2006 audit file.

Q4. Can you please confirm that Mr Neill did not discuss his market “data from publications / forecasts file” with EY. YES/NO If he did then when was that (your audit file notes) and with whom in EY.

Q5 Can you confirm that Magellan Aerospace did not provide a copy of the Forecast International Market report dated April 2007 before your audit signature on the FY2006 MAC Annual Report in March 2007. YES / NO - if it was provided what was the first date on which EY viewed or received it – from your EY FY2006 audit file.

Q6 Can you confirm that EY did not view or receive the extensive Technical reports in 1999 and 2005 on the BETA21S testing carried out by Dr Thamburaj. YES/NO If you did view or receive copies when was that (from your EY audit file notes) and from whom in Magellan .

Part 2

I said I would return to the Aeronca schedule dated 14 March 2009 above – attachment 5. My specific questions at Q1 and Q2 above related to the FY2006 audit and not FY2007 and FY2008.

It seems to me however that EY ought now to have recognized that the top scenario – that is a production series build of only 135 aircraft is a very probable outcome. All the external market forecasts (seven) in the public domain place these as 132 – 137 aircraft with Forecast international latest report (April 2009) now joining the rest for 133 aircraft.

As at September 2009 the “detail” production aircraft situation is

Aircraft Delivered - 123 aircraft - the final order from Etihad (MSN1040) for their A380 delay compensation “deal” is delivered imminently (both of the recent Iberia deliveries MSN960 and MSN1017

are in storage In LDE and will be joined this month by MSN 996 which will be formally delivered after its recent deferral for delivery by Airbus to Iberia to September 2010.

3 aircraft The final two A340 600 aircraft on order from Iberia will now be delivered in 2011, following an agreement in June 2009 with Airbus on deferral by one year.

3 aircraft A340 500 aircraft in storage ex Kingfisher airlines since mid 2008 . MSN 886 and MSN 893 in storage at Toulouse and MSN902 in storage in LDE. The only airline A340

- *500 / 600 sales campaign in Airbus at present is the effort by Airbus’s John Leahy to enforce the sale of two of these aircraft to SAA by end 2009 as part of a wider*
- *contract dispute resolution..*

3 VIP aircraft in Toulouse assembly line, currently for delivery in H1 2010 – Air Ukraine, Asian VIP and other unknown operator – all are the ULH A340 500 aircraft

6 Virgin Atlantic order - expect to be cancelled in due course with Airbus - recent 6 X A330 order and A380 contract discussions as they relate to A350 – 1000XWB etc .

TOTAL **132 “real” orders** *and VS – 6 to be removed in due course*

Therefore the forecast of **135 A340 500/600 aircraft from August 2006/early 2007** remains appropriate (expect one per year A340 500 VIP order from 2011 - 2014) and is consistent with what all the market forecasters (now also FI) have been saying since late 2006 /early 2007. Therefore the numbers used by Aeronca in their upper schedule on 14 March 2007 - i.e further 128 (BL – 126) is valid. I would expect that there are however few , if

any, exhaust system deliveries still required by Aircelle now for production of these "132" aircraft. There may be a few spares.

Turning now to the "Spares" calculation - I dealt with this in my email below but it strikes me and others having read that email that it is very probable that Aeronca are still representing to EY that they will build at least "886" spares as per that 14 March 2007 schedule by FY2021. Therefore Dev/prodn 434 plus 128 = **562** + 18 plus a further + 886 = 904 for a total of 1466 (to cover the 1285 used in amortization).

If this were adjusted to 560 plus say 500/525 (see my email below) this would be some 1085 - some 200 short of the 1285 used in the amortization in FY2006. This of course assumes that every aircraft in the airline fleet will be subject to a full replacement of the Trent 500 exhaust system sourced from Magellan. You have seen my comments in my email below on this -- with estimates ranging from 104 – 150 units – about 20 -25% of the "identified" market for both Spares and Repairs. If the A340 NRC had remained at circa \$40m this would have required an average \$400K or \$266K cost to be included in the pricing to recover same. Of course we know, as I stated in my email below on 10 August 2009, that since then the A340 NRC has been reduced through Canadian accounting policy changes in 2008 with the "write off" of circa C\$10m in labour learning costs (whilst EY still accepted those further asset additions in the MAC Balance Sheet at approx the 400th set in FY2006) and the commercial outcome with Aircelle on arbitration? - the sums from which were directed towards retroactive revenue and applied against the A340 NRC.

You will have seen my comments on this in my email on 10 August 2009 below and then read Mr Neill's evidence in the court transcripts about the remaining balance of C\$15 – C\$20m at December 2008. If every unit in the airline fleet is replaced (125 aircraft) then the \$30k previously been applied in the NRC recovery by MAC/EY will need to continue for all the replacement spares. However unless the spares pricing has been changed in the recent commercial agreement with Aircelle **then for 100/150 spares a cost of at least \$150K or \$100K will need to be recovered in the selling prices .**

I obviously do not know, yet, what representations regarding Spares volumes were included in what you assessed, and EY declared was acceptable, in the FY2008 audit but obviously the "886" spares seems highly probable to be the basis of that representation by Magellan management.

I hope you can respond promptly to the six questions in Part 1 and provide to Mr Dimma so that they can be relayed to Mr Rae.

Kind regards

Brian Little

Note : For Charles Rae on return from his holidays 7 September 2009. This should enable you to proceed with a prompt response to me so that I may complete the required confidential document for Mr Lynch QC/yourself and the Tribunal. This will permit me to meet my obligations to the Tribunal and yourselves by mid September 2009 before that Tribunal review scheduled for 21 September 2009.

From: Brian Little [<mailto:brian@fortfield.com>]

Sent: 31 August 2009 15:54

To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'
Subject: RE: Rich Neill - oral evidence on 27 July 2009

For the Record

Don – I hope you will recall my 8 July 2009 email in which I explained, following an immediate query, why we had not produced a financial model for the WB4 Case 4D Scenario for the “1572” Spares units from FY2007 to FY2021. Which was the expected demand, calculated by PwC, and recorded in both of their Reports at para 8.74/8.75. It was incorrect – not just in the basic logic and mathematics used by PwC, but also the aerospace business reality. I will return to this “expected spares demand” subject matter in Part B below.

From the court evidence in the transcripts (attachments to my 10 August 2009 email below) you will now have had the opportunity during the last month to read the further testimonies on the A340 subject on June 8/10 and on 27 July 2009 to the UK court. You will therefore have read in the oral evidence that neither Mr Dekker or Mr Neill “corrected” this “1572” spares view when they both met with PwC on 3 May 2007 to discuss the “final” draft PwC report. I assume likewise that you did not bring this basic error to the attention of PwC when you received your final “draft” copy from Mr Dimma. As you know I was not permitted to make our various inputs to the “Final” Draft PwC report by Mr Dimma/Mr Jewitt in June/July 2007, and Mr Tracey of PwC failed to insist in the alleged “independent forensic investigation” that I must be invited to also do so. That was, and will continue to prove to be, a profoundly serious error in professional judgment and of course in any event EY cannot rely on the PwC reports for their “unqualified” audit opinion for Magellan Aerospace financial statements in FY2006 and since.

List of attached documents

1. Documents oral evidence.extract.RAN.doc.25.august..doc (59kb) – Page 1 Tribunal Order December 2008
2. Tribunal.Order.Request.21.document.disclosure.verification.accuracy.31.august.2009 (38kb)
3. Doc3605B.EY.1March.2007.disclosed8June2009hearing.doc (27kb) and magellan A340 forecast.1.March.2007 (817kb):Sent June
4. etorder.3dec.neillemail.29march2007. (754kb) – includes FI April 2007 report in “scan”
5. Magellan.A340.forecasts.14.march.2007. (2MB)- production (562 and spares = 886) BL case – 560 and spares 100-150)etc
6. BL.WB4 BL135ac.prodn.MACreplacementsparesvolumes.... now with added case4D.613 spares. (216kb) WB1-WB 5 – July 2009
7. A340 Fleet Hrs and Cycles.31.August.2009. (25kb) – actual stats for flying hours/flight cycles - 4400 average across in service
8. Data from other publications RAN evidence
July27.doc.attachment.B.30augustupdated.doc (53kb)

Some background for “recollection” purposes - please read an extract of the 3 December 2008 Tribunal Order (reference.doc1.page1.) and then the remainder of the relevant extracts of oral evidence. I have selected these from the complete RA Neill transcript evidence document provided to you with my 10 August 2009 email trail below.

The outcome of that Court Order in December 2008 at ref1.page1 was a series of additional documents disclosures on 11 December 2008 by the Respondents solicitors- Charles Rae. All of which were previously forwarded through email to you in mid December 2008. I have now made a spreadsheet showing the overall A340 document disclosures made by PwC in their Report/Exhibits and through the Tribunal Order process. A number of additional documents have also been subsequently disclosed.

At this time I would like to focus in on two parts/perspectives. One on a few particular matters within that Tribunal Order spreadsheet in which EY can consider and then provide the answers to Magellan and/or myself. These are listed at Request 1A ,5/5A and 8.

PART A

Request 1A/1B - please read (reference document 4)

etorder.3dec.neillemail.29march.2007 which is an email trail exchange between Stephen R.Moore of PwC Canada and Mr Neill of Magellan Aerospace. Based on a letter on 9 January 2009 from the Respondents solicitors I am advised that you/EY never saw this email. You will of course have read the email trail as an attachment to my mid December 2008 email after disclosure to the Court. You can also see Mr Neill's reference in the first para of his email on March 2009 to an "analysis" for " the likely spares requirement was in excess of 800 units over the period 2007 to 2021..... this data was sent to you on 14 March 2007".

That 14 March 2007 "analysis" document (2MB) has now been disclosed to me, for the first time last Thursday 27 August 2009, and is attached at ref 5. I think it is very unlikely that this latest "analysis" was ever viewed or received by you/EY from Magellan or PwC.

Can you please confirm that EY never received this 14 March 2007 document/information for their consideration from MAC and/or PwC prior to your 16 March MAC Audit Committee meeting minutes and then your 27 March sign-off of the FY2006 MAC financial statements. Secondly and crucially was this specific and important "analysis" raised or discussed with Mr Neill by EY.

Although it was not disclosed by Magellan in accordance with the December 2008 Tribunal Order, and you failed to bring that to their attention after receipt of the "disclosed" documents from me in mid December 2008, we now know that EY were sent an email on 1 March 2007 attaching the "latest" Aeronca schedules of that date attached at ref3 . For completeness I also re attach a copy of the 1 March 2007 email sent to EY and the equivalent attached Aeronca document format - 27kb and 817kb files. I sent this 1 March 2007 document previously with my email to you on 22 June 2009.

I know EY will have used the EAC for Q4.2006 as the basis of your yearend audit testing. Another relevant and related email and attachments – 27kb - including "auditor assessment at a glance remarks etc" was sent to both PwC and you on 5 May 2009. I will return to this latest 14 March 2007 document as part of Part 2 of this email.

Request 5/5A - please now read the oral evidence of Mr Neill on 27 July 2009 (reference doc 8 pages 1/2 and reference doc 1 pages 6/7) where Mr Neill refers to a file of data of publications, forecasts etc which he gave to PwC Canada in March 2007.

I assume from the June and July 2009 oral evidence, and the fact that Mr Neill is not referenced as a person to whom inquiries were made in either of your EY 2006 Audit Results and Communications reports, that none of his “market information file” was made available by Magellan to EY (or indeed requested by you/EY so as to assess the validity of my comments and documents) or secondly discussed with Mr Neill – can you please confirm that this is correct. The data from the other publications was of course available in the public domain and for completeness I attach a copy of the relevant publications and references listed in the 18 month period from September 2005 to 31 March 2007. Some of these articles you will recall I referred to from the Flight International magazine when we met in December 2006. (doc.ref 8 : see attached file 53kb)

Can you also confirm that PwC or Magellan did not provide you/EY with a copy of the Forecast International April 2007 market report for A340 – that attached to doc ref4 prior to the EY audit signature on the MAC FY2006 financial statements. We already know that PwC Canada and Mr Tracey did not obtain the various teal Group A340 market reports available through the PwC UK subscription/team in London and there is no reference to any other files/documents/publication articles by PwC in their Reports..

Request 8 - there is no reference in the PwC report to the two large technical reports dated 1999 and 2005 disclosed by Magellan in December 2008. Please now read the oral evidence of Mr Neill on 27 July 2007 (reference doc 1 pages 6 and 7) where he says that he would not have seen the value in providing these reports to EY or PwC but could not recall whether he did or did not provide them. Mr Dekker was certain he did not provide or discuss them with EY or PwC. **Can you confirm , as I also believe, that the EY staff did not see or view these Technical reports.**

PART B

Point 1 : Please now look closely at this 14 March 2007 document ref 5. The top scenario – shows a further 128 exhaust systems for A340 production from 2007 and equates to the production of 135 aircraft x A340 – 500/600 by Magellan for Aircelle/Airbus by 2009. On “volumes” this 128 is similar to what I told you when I was showing you the dossier file, DIR 44 etc, on the Emirates A340 order cancellation in October 2006 on 14 December 2006 in London. This DIR 44 document I then circulated to you in the MAC Director folders sent by courier to you personally in Canada in January 2007 and I know Ms Hadfield told me that she would also bring this to your attention having read the same article in the Times. Based on that 14 March 2007 analysis MAC would then have required a further 700 plus “actual” spares units to meet the pricing/ revenue and amortization volumes (1285). I described this when we were discussing volumes, in simple terms, as it could be about half of the “amortization” quantity we had been using in MAC at our December 2006 meeting in London.

The “calculated” Spares numbers by John Furbay, totaling 886 from FY2007 to FY2021 in that same 14 March 2007 schedule, under I believe Rich Neill’s instruction, assumes “full replacement” and the associated pricing/revenue of every Exhaust system by Magellan on a 8 year cycle /40000 flying hours. I believe Mr Furbay made an mistake in his calculations and did not use the “aircraft in service” dates. Perhaps he used volumes shipped per year from Aeronca to Aircelle. On the RAN-assumed basis of a 8 year replacement “life” and aircraft in service” data I would have expected the number to be approximately 800 units. If you maintain Magellan’s replacement spares assumptions and adjust for the actual flying hours per “airline” aircraft per year of 4400 there is about a 9 year life (see doc ref

7). For the airline-only aircraft the Spares would have been equal to just over 600 units. In my email of 2 July 2009, attaching the various financial models, I included a WB 4 with cases 4A, 4B and 4C. I have now re-attached that WB4 file at doc ref 7 with a Case 4D scenario for the production volumes (My 126 v 128 in the 14 March 2007 document) and the “revised calculation” of 613 Spares.

I should also say, for the avoidance of doubt, that I do not accept the legitimacy of the “Replacement Spares” assumptions being made – and I am sure it also struck you whilst reading the RAN full and selected evidence extracts, of the regular reference to “On Condition” and the constant reference to repairs and the “worst” case scenario and other “aerospace” language to that effect. You will of course also have read Mr Bobbi’s witness statement and his oral evidence – including the “instructed” line of questioning by Mr Lynch QC. Even if there was an acceptance of a 8/9 year “actual” life it seems inappropriate to everyone (including the engines guys) I have spoken with for any company, or its public auditor, to accept the recovery of Engineering and Development NRC over a longer period than the typical aircraft life depreciation – generally 15 years though some A340 operators, including the largest airline operator Lufthansa (24 a/c – 12 years) adopt less. At best, around a 500/520 spares number could have been used. This is similar to what Deloitte and I modeled in Case 4A in doc ref6 - as if there was “reasonable evidence available for a “one life” cycle replacement which could only be supplied by Magellan Aerospace.

Although not very legible I think the lower scenario in that 14 March 2007 document at doc ref 5 seems to be based on completing the aircraft orders shown on the Airbus website/O & D totalling 153 orders in January /February 2007 – the highest ever recorded. However it seems from that March 2007 analysis that Magellan (and PwC) determined that they would continue to include the “orders” for 3 Air Canada and 18 Emirates aircraft orders, which everyone knew (including EY), had been effectively cancelled in 2004/2005 and October 2006 (DIR44-doc 2642/2643) respectively etc. These would be removed in due course as the normal commercial activities were addressed and certainly by August 2007 when the PwC report was completed and circulated the order website “picture” had begun its decline. PwC also deliberately ignored this information in March 2007, despite the fact that they are the public auditors for both Air Canada and Emirates and internally would have that information readily available to them in any research, never mind both the Annual Reports and the Emirates “cancellation” recorded in the actual “text” in the Forecast International April 2007 report. And of course the consensus (excluding FI) amongst the external market forecasters was for lower series production levels (circa 135 a/c) than those 153 aircraft orders since mid 2006/early 2007. The six orders /deliveries deferred indefinitely by VS was widely known in February/March 2007 and their Airbus “assembly” aircraft re-assigned to Lufthansa.

Point 2 : On the face of it also seems that with the exception of Safran /Aircelle (Deloitte) & Spirit and GKN (PwC) that others **are not aware of the extensive audit experience available to EY globally on nacelle and their component systems through Goodrich/Rohr (global number 1) , Vought and Bombardier – Belfast (V2500 etc).** As you know I worked as a part – time Associate consultant with EY (UK) – 1997- 2001 and of course previously from 1979 – 1995 at Bombardier in Belfast where I had my “exposure” to the engine nacelles world and Canadian “accounting” practice during my frequent visits to Montreal.

You will therefore be aware of EY accounting policy and practice on nacelle repairs with regard to Engineering and Development NRC recoveries in each country and vice versa – as per the brief reference to that in the PwC report para 8.72. “.....*Management acknowledges the unpredictability of repair work and appropriately has chosen not to consider repairs in its EAC analysis.*” From my involvement with EY through Bombardier on the V2500 and the other Shorts-based programmes (Bae 146, CF34, DASH8.BR710 etc) I know this policy and practice was and is consistent with what Bombardier and both EY Canada and EY UK accepted in their audits.

I raise this again as you will now have read the oral evidence during Mr Neill’s evidence on 27 July 2009 and the frequent reference to Trent 500 maintenance checks “On Condition” and Repairs. In particular I have extracted some specific “passages” (35kb file) from that oral evidence in which he refers to worse case scenarios etc and difficult operating conditions etc as the basis of the “Thamburaj” – March 2007 calculations and testing regime. These are worst case scenarios – that is the most optimistic view possible for the volume of replacement spares and given its materiality in the MAC Balance Sheet and future cash recoveries there should be commercial and technical documentation in place to support the “life” / replacement scenarios been suggested. None of those supporting documents have been disclosed yet – in fact the sole commercial document to date refers to Repairs and a 27 cent DMC per flying hour in Year 2000 terms for the Exhaust Nozzle and Plug.

I have re-checked my belief with some former colleagues at Rohr/Goodrich in the USA on the V2500 project (who incidentally also offer repair/overhaul capability on Trent 500 engine exhausts and plugs) and just last weekend with a former Bombardier UK and Canada colleague on the business and related accounting. I had also done so previously with a former business acquaintance and friend (ex Airbus Toulouse Accountant) and now Chair of the Audit Committee at EY client, Vought. All of them confirmed my belief and their Spares and separately Repairs business and accounting policy in this regard.

No doubt you have already researched the detail of this further within EY (or can certainly do so now) to ensure that you are pursuing a “consistent” audit policy and practice to the rest of the nacelle industry at Magellan Aerospace. I remain satisfied in my business belief and accounting understanding on this matter both in 1990 to 1992 (in Belfast and Rohr) and in all my experience thereafter – hence the reason for my “protected disclosures” in 2006 and my meetings with EY in December 2006.

IF you need me to clarify any of this then please do not hesitate to contact me. On this occasion I also look forward to hearing from you directly when providing the limited answers needed for Part 1.

Kind regards

Brian

From: Brian Little [mailto:brian@fortfield.com]
Sent: 10 August 2009 20:26
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'
Subject: Rich Neill - oral evidence on 27 July 2009

Don – as a matter of record I attach copies of the Court transcripts for Mr Neill’s public evidence on 27 July 2009. I think you will already have a copy of Mr Dekker’s oral evidence (10 June 2009) and Mark Bobbi’s evidence (8 June 2009) on A340 but attach for ease of reference and record.

On reading these transcripts in addition to what seems from their evidence to be at best a very cursory and non-integrated review by you/EY with MAC Senior Directors and Officers (Mr Neill/Mr Dekker/Mr Butyniec) on A340 in March 2007 you will note further evidence from Mr Neill on the allocation of the retroactive price adjustment monies from the Aircelle commercial contract to the reduction of the A340 NRC . That also seems to be substantively consistent with what Mr Edwards said in his oral evidence on 31 March 2009 and as reported in the Globe and Mail and the Annual Report for FY2008.

This retroactive price adjustment was of course in excess of the representation (prices/volumes and costs) made by MAC at the end of FY2006 for the “pessimistic scenario” from FY2007 to FY2012 --- the small gross profit of \$137K after the recovery of the US\$38.25m (approx C\$45m) – and accepted by yourselves as the basis of your yearend audit testing. Most certainly that “specific” C\$40m + cash/asset recovery to MAC will never happen by FY2012 or beyond. No doubt you will also understand the significance of the A340 “replacement spares” evidence and the financial EAC pricing and volume assumptions you were provided.

Kind regards

Brian